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# STRUCTURAL CHANGE AND COUNTER-REFORMS IN LATIN AMERICA: NECESSITY OR POSSIBILITY?

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Pablo Ignacio Chena and Esteban Pérez Caldentey<sup>1</sup>  
*Guest Editors*

## 1. A SPECIAL CONTEXT FOR A SPECIAL NUMBER

The issue that we present today was conceived in a very different economic, political and social context from the one that currently prevails due to the emergence of a unique historical event: The Coronavirus pandemic. A phenomenon that will have effects on economic growth and unemployment similar to those of the Great Depression of the 1930s and an impact on human lives similar to those of a war. An economic crisis and a humanitarian crisis come together in this event.

One of the central questions posed by this phenomenon is whether it will accentuate the prevailing trends in the form of organization and articulation of production on a world scale and global finance, or whether, by contrast, it will be a disruptive factor and one of creative destruction. Whatever the result, the pandemic will affect the productive structure of Latin America and the possibilities of the region to move towards a progressive structural change.

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Papers in this special issue address different aspects and dimensions of structural change for Latin America, both from a regional perspective (Emilia Ormaechea and Víctor Ramiro Fernández; and Matías Torchinsky Landau), from one focusing on the specific experiences of Mexico (Juan Carlos Moreno-Brid, Joaquín Sánchez Gómez and Luis Ángel Monroy Gómez Franco), Colombia (Gonzalo Cómbita Mora), Ecuador (Katuska King and Pablo Samaniego), Argentina (Pablo Chena; Demian Panigo and Germán Zorba), and jointly for Chile, Argentina and Mexico (Samuele Bibi).

Despite these papers having been thought about and written before COVID-19, the analysis and conclusions of the articles remain valid in the current circumstances. On the one hand, they allow us to understand how structural obstacles in the region aggravate the effects of COVID-19 and may limit our capacity to face them. On the other hand, they can serve as a basis to identify the key challenges that the region will face in terms of moving towards a progressive structural change in a post-COVID world.

## **2. GLOBAL TRENDS IN THE WORLD ECONOMY PRIOR TO COVID-19**

In the last three decades, the global economy has been characterized by two major trends. On the one hand, the non-financial corporate sector has witnessed a simultaneous process of expansion, concentration and globalization without historical precedent. This process has been guided by large traditional transnational companies to mobilize a wide variety of industries, production and employment around the globe. This responds to the search for greater benefits through lower production costs, the expansion of global markets, and insertion into global value chains. Changes of production location are not related to only one specific industry or product line; they occur across a wide range of industries and products.

Global business concentration has increased in many productive sectors, and the bulk of multinational companies belong to the western world. Evidence available for 2017 shows that, out of a sample of 22 sectors (including groceries, electronics, pharmaceuticals, chemicals, energy, and transportation, among others), the top ten companies held, on average, 88%, and the top five 80% of the global market in these sectors. For the same year, the leading company captured on average 43% of the global market. Seventy-seven percent of these leading companies belonged to the United States or Europe, and only 1% were of Chinese origin (Nalin, 2017).

Along with this expansion of the real sector, the financial sector also underwent important transformations across the globe. On the one hand, the financial sector experienced unprecedented expansion in the first decade of the 21st century, driven by a strong interrelation between leverage and interconnectivity that allowed global banking to effect strong profits. At the same time, as well as greater interrelation fostered between the real and financial sectors, there was also predominance of the finance sector over the production sector.

This can be referred to as a financialization process, one that has permeated many economic activities, including the distribution and production of goods and services. It has also been reflected in the significant increase in inequality both globally and at country level. The increasing role of raw materials as financial assets illustrates this process. The Global Financial Crisis changed the way in which the transformations of the financial sector and its interaction with the real sphere are established; a serious blow to the global banking. However, other financial institutions and, in particular, the non-bank financial sector experienced strong dynamism, while the non-financial corporate sector adopted a role as financial intermediary, taking advantage of the boom in the international bond market that replaced the loss of dynamism of international cross-border loans.

### **3. LATIN AMERICA AND THE ABSENCE OF PROGRESSIVE STRUCTURAL CHANGE**

The close relationship between the financial sector and the real sector, and the consequent financialization process, were not exclusive to developed countries. They also affected developing economies. An illustrative case is the emergence of financial conglomerates in some countries in the region (Abeles, Pérez Caldentey & Valdecantos, 2018; Bortz & Kaltenbrunner, 2020). However, this financial development was not accompanied by productive development or progressive structural change. The lack of structural change is reflected in the fact that the growth rate of labor productivity in Latin America has, in the last thirty years, lagged behind that of all developing regions (0.4% for the 1991-2018 period, compared to 6.5%, 4.2%, 1.1% 1.0% for the East Asia and the Pacific, South Asia, the Middle East and North Africa, and Sub-Saharan Africa) (Paus, 2019).

The absence of structural change is also reflected in Latin America's export structure that, over time, has remained anchored in natural resources. The evidence available for the 1980-2018 period shows that the proportion of raw materials and manufactures based on natural resources represented 77%, 63%, 44%, 60% and 50% of the total on average in the early 1980s, 1990s, 2000s, 2010 and for 2018 (ECLAC, 2019). Regarding recent dynamics, there are two great paths that can promote structural change in the region. On the one hand, a drop in the terms of trade with great possibilities of becoming secularized over time, an aspect highlighted by Prebisch (1967) as an impulse to industrialization in the periphery. On the other, an accelerated outflow of financial capital from the periphery to the center, a phenomenon that limits the financialization of capital (Bortz & Kaltenbrunner, 2020).

However, an aspect that gives rise to a certain pessimism is the location of the innovation processes. Global value chains play a determining role in this issue, locating low-value-added production segments (non-core activities) in Latin America, where competition revolves around reducing wages. While central countries concentrate innovation, competition for the monitoring and control of property rights, finance, and marketing (core activities) (Medeiros & Trebat, 2016). In this aspect, no changing elements have been observed so far.

#### **4. THE PANDEMIC: WILL IT INCREASE THE VULNERABILITY OF THE PRODUCTIVE APPARATUS OR WILL IT BE A PROCESS OF CREATIVE DESTRUCTION?**

In this context, the Covid-19 pandemic erupts as a true event in the sense of Badiou (1999); a break in the field of knowledge about the established situation that allows the emergence of a possibility not considered until now.

The change began with a sudden stop in the movement of people and goods for sanitary reasons that soon moved to the sphere of production. With similar effects to those of an involuntary general strike, COVID 19 has produced a scenario of total uncertainty that deteriorate the state of confidence in the established conventions of the marginal effectiveness of capital in the short, medium, and long term, as a result of the many questions that exist about the depth of the crisis and its timing.

The Pandemic is a factor of disruption and destruction of the productive structure at global and regional levels. In Latin America, productive sectors, including services, are highly dependent on external demand and the proper functioning of global production chains. In its own dynamics, the crisis threatens, on the one hand, to extinguish huge numbers of companies and entire branches of goods and services production on global, regional and national scales. Certainly, this reveals the fragility of the productive structure in Latin America.

At the same time, the Pandemic can be transformed into a way of rethinking adequate policies for a productive structure that is more closely related to economic and social development objectives. Can it represent the opportunity for “creative destruction” capable of generating structural change? Outside the margins of determinism, a number of elements emerge that can lead us to think about this possibility.

#### **5. BEYOND THE HEALTH STATUS STATE: A DEVELOPMENTAL STATE?**

Historically, the central element of development has been an interventionist state that has guided the process using different strategies and instruments, as is required by circumstances and economic policy objectives. The great powers developed and became strong under the tutelage of the State.

COVID-19 will definitely change the State-market relationship, allowing us to open up to the possibility of a Developmental State, given the fragility shown by the economic and social institutions, as a consequence of the Washington Consensus policies and the market mechanisms established to tackle the effects of the Pandemic.



Another question that arises in the papers in this special issue is the evolution of the National States, an institution that, as highlighted by the work of Emilia Ormaechea and Víctor Ramiro Fernández, is a central to promoting structural change. However, in the last decades, this institution served as an instrument for the reproduction of financial capital or it was structurally conditioned by it. An aspect that is analyzed in detail and under different perspectives in this issue for the cases of Mexico (Juan Carlos Moreno-Brid, Joaquín Sánchez Gómez and Luis Ángel Monroy Gómez Franco); Colombia (Gonzalo Cóbbita Mora); Ecuador (Katuska King and Pablo Samaniego); Argentina (Pablo Chena; Demian Panigo and Germán Zorba) and jointly for Chile, Argentina and Mexico (in the text by Samuele Bibi).

The COVID 19 crisis has caused the governments of the National States to adopt a dynamic that, with different speeds and retentions, seem to lead to a “Sanitary State Reason” with four main characteristics: a) a drastic change in public spending to boost the health component, and social and economic subsidies; b) the formation of a certain consensus to temporarily finance this increase in spending with the issuance of domestic currency; c) greater control of the population and the territory; and d) the revival of economic, political, and social borders.

The transitory nature of the “Sanitary State” and its instruments open certain dilemmas, about the future of the region in issues such as public spending: will it be financed predominantly by taxes on wealth or taxes on financial capital circulation? Or will the subsequent fiscal adjustment prevail after the pandemic?

State intervention in markets: will it prioritize the needs of transnational capital subsidizing them until the end of the crisis or will strategic companies be nationalized for the development of new productive branches? Regarding foreign trade: will state control of imports and exports be consolidated with regional South-South trade agreements? Or alternatively, will the trend to go back to free trade prevail, according to the mandates of global value chains?

Regarding international financial capital flows: will conditionalities and limitations apply to their entry and exit, or will financial liberalization be imposed once again? Finally, regarding technological change: will greater competition between countries prevail or will the concentration of innovations be consolidated in the centers of the world system?

The answer to these questions and the coordination between the economic policies of the different countries will somehow define the potential of progressive structural change in Latin America (on the importance of fiscal coordination, see Matías Torchinsky Landau’s article in this issue). The possibility of moving from a Sanitary State to one that resumes the region’s developmentalism tradition arises, after COVID-19, as a possible alternative.

Finally, this special issue includes everything it needs to make it special. Beyond the current global situation of the pandemic, this issue, number 80 of *Cuadernos*

*de Economía*, coincided with the celebration of the 40th anniversary of the journal. This seems a reasonable coincidence, if we are referring to a biannual publication but looking back, it was a matter of chance. First, it should be clarified that despite its first issue being published in 1979, the journal is celebrating 40 years of academic service since there were no publications in 1982.

*Cuadernos de Economía* began with one annual publication until 1993 when it turned biannual. Since 2012, in addition to the regular issues, a special issue has been published once a year, whose main objective is to address a topic of current interest. As we can see, the journal has come a long way, including ups and downs that have given rise to a number of exceptions to its regularity, but it has always fulfilled its goal of promoting the production and diffusion of knowledge in the different branches of economic sciences in Colombia and Latin America.

Without further prelude, let us begin with the introduction to this issue written by professor Marc Lavoie, to whom we are especially grateful for his participation and for his profound intellectual contributions to the heterodox economics tradition that is clearly a central topic in this issue.

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